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C O N F I D E N T I A L HARARE 002544

SIPDIS

E.O. 12958: DECL: 11/14/2012
TAGS: ECON EFIN EPET ZI
SUBJECT: U.S. OIL FIRMS COULD GET SQUEEZED

REF: HARARE 2397

¶1. (C) Summary: Indigenous firms are pressing the GoZ to let them take over business from foreign oil firms, according to Mobil officials. However, the company reps were subsequently encouraged by subsequent GoZ assurances on Tuesday that multinational investment should be protected. End Summary.

## Fuel Import: Transition to What?

¶2. (C) Mobil officials updated Amb Sullivan and econoff on developments since President Mugabe announced two weeks ago that the GoZ can no longer subsidize fuel imports (ref). Through parastatal NOCZIM, Zimbabwe currently absorbs about 90 percent of the fuel cost, enabling operators to sell unleaded gas for about U.S.$.16/gallon. Since Mugabe's remarks, Energy Minister Nicholus Kitikiti has hosted a series of meetings with the 5 multinationals and 16 indigenous operators. According to Mobil, these encounters turned progressively rancorous, with indigenous firms advocating fiercely for expanded market share and multinationals insisting that they had to operate within their existing framework agreement with Government. Indigenous operators and ZANU-PF MP Philip Chiyanguta was allocated major air time on state TV to argue that indigenous operators should receive all of NOCZIM's fuel imports and that multinationals should sell off their service stations to indigenous operators. Multinationals -- which include Mobil (ExxonMobil) and Caltex (ChevronTexaco) -- walked out of a Nov. 8 meeting that ended in a shouting match. Indigenous operators apparently accused the Energy Minister of undermining Mugabe's new fuel policy. In a separate meeting without indigenous firms on Tuesday, the Minister apologized and agreed that foreign investment should be protected.

¶3. (C) Mobil reps were pleased by the Minister's reaction, hoping it reflects a change-of-heart by President Mugabe since they had in the interim passed their analysis to him in a special channel. However, they still fear the GoZ could decide to subsidize fuel only for indigenous operators. That would mean gas stations owned by multinationals would sell fuel for 6-10 times as much as those owned by locals setting the stage for a poisonous situation. As the lines for cheaper fuel grew unbearable at indigenous stations, the GoZ could argue that multinational stations were underutilized and turn them over to local companies.

## Comment

¶4. (C) Should such a scenario come to pass, Mobil reps indicated they may ask the Embassy to "go to bat" for the company. While expropriation is only one of many scenarios, an uncompensated expropriation of Mobil or Caltex assets would be a grave matter. As an additional complicating factor, Mobil officials felt the 5 multinationals may not remain unified throughout a shake-down, so conceivably Mobil and Caltex could end up on different sides, as could Total, BP and Shell.

¶5. (C) In any event, we cannot emphasize enough the seriousness of Zimbabwe's fuel shortage. Companies are currently being allocated about 50 percent of their needs by NOCZIM. Any international price increase resulting from a Persian Gulf war would further exacerbate the crisis. Mobil reps estimate that the GoZ's fuel subsidy presently costs US$ 30 million/month. Annualized, that's as much as 8 percent of Zimbabwe's rapidly shrinking GDP. Unless the GoZ can locate a new source of fuel or foreign exchange, the subsidy is unsustainable.
SULLIVAN